

## Message Text

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ORIGIN FRB-03

INFO OCT-01 ARA-06 ISO-00 TRSE-00 EB-07 L-02 AID-05

CIAE-00 COME-00 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02

CIEP-01 OMB-01 /040 R

66604

DRAFTED BY FRB:YMARONI:TR

APPROVED BY ARA/BR:RWZIMMERMANN

FRB:RCBRYANT

FRB:RJHOCHSTATTER

TREAS:HDSCHULER (PHONE)

ARA/BR:JSLATTERY

EB/IFD:RGELBARD

----- 040019

R 081634Z APR 75

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L STATE 079116

E.O. 11652: GDS

TAGS: EFIN, BR

SUBJECT: FED POLICY ON LENDING TO BRAZIL

REF: BRASILIA 2229

1. FEDERAL RESERVE STAFF UNAWARE OF ANY MEETING AT WHICH SENIOR FEDERAL RESERVE OFFICIALS REPORTEDLY TOLD TOP OFFICIALS OF US BANKS OF THEIR CONCERN ABOUT EXPOSURE OF THE US BANK-ING SYSTEM IN BRAZIL AND URGED GREATER DIVERSIFICATION OF LOAN PORTFOLIOS TOWARD OTHER LATIN AMERICAN COUNTRIES. FED STAFF DOUBTS THAT FED GOVERNORS WOULD HAVE MADE SUCH A STATEMENT. IT IS NOT REPEAT NOT FED POLICY TO PASS JUDGMENT ON OVERALL EXPOSURE OF US BANKING SYSTEM IN ANY ONE COUNTRY. IF ANY DIRECTIVE (OR MORAL SUASION) WERE USED TO INFLUENCE  
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THE COMPOSITION OF BANK PORTFOLIO, IT WOULD APPLY ONLY TO AN

INDIVIDUAL BANK WHICH MIGHT HAVE EXCESSIVE CONCENTRATION OF LOANS TO ONE BORROWER, AND IT WOULD NEVER SPECIFY IN WHAT DIRECTION ADDITIONAL LOANS SHOULD BE MADE TO ACHIEVE BETTER BALANCE OF PORTFOLIO.

2. FED STAFF INQUIRED AT COMPTROLLER OF THE CURRENCY WHICH ALSO UNAWARE OF ANY SUCH MEETING. COMPTROLLER'S POLICY, LIKE FED'S, IS TO DEAL WITH INDIVIDUAL BANKS WHICH MAY HAVE OVERCONCENTRATION OF LOANS TO ONE BORROWER, AND NOT WITH EXPOSURE OF BANKING SYSTEM AS A WHOLE. COMPTROLLER OFFICIALS DID MEET LAST OCTOBER WITH INTERNATIONAL OFFICERS OF US BANKS TO DISCUSS LENDING TO A NUMBER OF COUNTRIES, BUT BRAZIL WAS NOT DISCUSSED AT THAT MEETING, NOR HAS COMPTROLLER'S OFFICE INSTRUCTED ITS EXAMINERS TO BE CRITICAL OF LOANS TO BRAZIL.

3. COMPTROLLER'S OFFICE REPORTS THAT MANY US BANKS HAVE BECOME SKITTISH ON BRAZIL BECAUSE OF THE RAPID INCREASE IN ITS EXTERNAL INDEBTEDNESS AND BECAUSE BANK PROJECTIONS OF BRAZILIAN CASH FLOWS HAVE BEEN DISRUPTED NOW THAT NEW LOANS TYPICALLY MATURE IN 5 YEARS INSTEAD OF 10-12 YEARS PREVIOUSLY.

4. TREASURY BULLETIN FOR MARCH, PP. 93 AND 96, SHOWS CLAIMS REPORTED BY US BANKS ON BRAZILIAN BORROWERS AT END OF JANUARY AT \$1,265 MILLION (SHORT TERM) AND \$878 MILLION (LONG TERM) RESPECTIVELY. ON THAT DATE, TOTAL CLAIMS ON ALL LATIN AMERICAN AND CARIBBEAN COUNTRIES, EXCLUDING BAHAMAS, WERE \$9,318 MILLION (SHORT TERM) AND \$2,592 MILLION (LONG TERM) RESPECTIVELY. CONSIDERING THE RELATIVE IMPORTANCE OF BRAZILIAN ECONOMY AND TRADE, THESE FIGURES WOULD NOT APPEAR TO REPRESENT EXCESSIVE CONCENTRATION OF LOANS TO BRAZIL COMPARED TO OTHER LATIN AMERICAN AND CARIBBEAN COUNTRIES BY US BANKING SYSTEM AS A WHOLE.

5. FROM THE STANDPOINT OF THE BANK REGULATORY AGENCIES, THE ROLE OF US BANKS IN MEETING BRAZIL'S HEAVY EXTERNAL FINANCING REQUIREMENTS IS STRICTLY UP TO THE BANKS THEMSELVES.

6. IF FURTHER CHECKING IS DESIRED, PLEASED INFORM FED OF  
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IDENTITY OF SOURCE OF REPORT.

7. IF GOB RAISED THIS SUBJECT WITH EMBASSY, EMBASSY MAY

DRAW UPON ABOVE IN RESPONSE. KISSINGER

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## Message Attributes

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